

Annual Report

1962

INTERNATIONAL



SHOE COMPANY

BOARDS
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In 3r

51st Annual Report

DIRECTORS

| | |
|---------------------|----------------------|
| William J. Banks | J. Lee Johnson |
| Edgar S. Bland | Lee C. McKinley |
| David R. Calhoun | Warren P. Metz |
| Maurice R. Chambers | Oliver F. Peters |
| Kenton R. Cravens | Norfleet H. Rand |
| Harold M. Florsheim | Rezin H. Richards |
| J. Russell Forgan | Edward J. Riley, Jr. |
| Clemence L. Hein | Laurence M. Savage |
| Andrew W. Johnson | |

OFFICERS

| | |
|---------------------|--|
| Maurice R. Chambers | <i>President</i> |
| Norfleet H. Rand | <i>Vice-President</i> |
| J. Lee Johnson | <i>Vice-President and Treasurer</i> |
| Lee C. McKinley | <i>Vice-President</i> |
| Rezin H. Richards | <i>Vice-President</i> |
| William J. Banks | <i>Vice-President and Comptroller</i> |
| Harold M. Florsheim | <i>Vice-President</i> |
| Laurence M. Savage | <i>Vice-President</i> |
| Joseph Fox | <i>Vice-President</i> |
| Eugene J. Roessel | <i>Vice-President</i> |
| M. Robert Shaffer | <i>Vice-President</i> |
| Warren P. Metz | <i>Secretary and Assistant Treasurer</i> |
| Leonard F. Vogt | <i>Assistant Comptroller</i> |
| Richard H. Ely | <i>Assistant Secretary</i> |

GENERAL OFFICES

1509 Washington Ave., St. Louis 66, Mo.

TRANSFER AGENTS

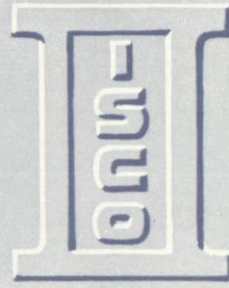
Manufacturers Hanover Trust Company, New York, N. Y.
Mercantile Trust Company, St. Louis, Mo.

REGISTRARS

Morgan-Guaranty Trust Company, New York, N. Y.
St. Louis Union Trust Company, St. Louis, Mo.

ANNUAL MEETING OF STOCKHOLDERS

will be held at 10:00 A.M. on February 25, 1963 at the Company's
General Offices, 1509 Washington Ave., St. Louis, Mo.



INTERNATIONAL SHOE COMPANY

WORLD'S LARGEST SHOE MANUFACTURER

1962

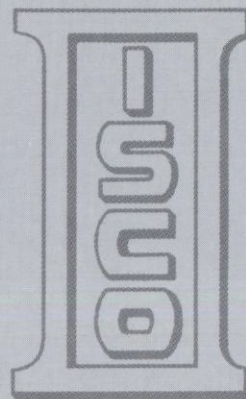
Annual Report

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highlights
of the year
1962



Fiscal Years Ended November 30

| | 1962 | 1961 |
|--|----------------|----------------|
| Net Sales..... | \$ 303,182,231 | \$ 294,274,879 |
| Income before Federal and Canadian Taxes..... | 16,007,862 | 9,369,265 |
| Federal and Canadian Taxes on Income... | 8,615,790 | 4,081,277 |
| *Net Income..... | 7,070,667 | 5,191,178 |
| Dividends Paid..... | 4,050,004 | 6,116,215 |
| Net Income per share..... | 2.12 | 1.53 |
| Dividends per share..... | 1.20 | 1.80 |
| Net Working Capital..... | 117,461,946 | 118,053,644 |
| Net Working Capital per share..... | 35.15 | 34.75 |
| Stockholders' Equity..... | 111,309,481 | 109,814,363 |
| Stockholders' Equity per share..... | 33.31 | 32.32 |
| Number of Stockholders..... | 19,675 | 19,800 |
| Number of Employees..... | 32,500 | 33,500 |

*After adjustment for minority interests.

From the President

TO OUR SHAREHOLDERS:

For the year 1962, International Shoe Company's sales reached a record high. Net income was up 36% over 1961.

A number of factors contributed to the company's improved performance. There were additions to the management team; certain reassignments of responsibilities; departmental consolidations and cost reductions at all levels that brought about a greater degree of control and efficiency. It is expected that these changes will have a continuing impact on future sales and profits.

A reduction was made in the number of the various styles offered by the company's selling divisions, resulting in economies from planning to final sales at retail and better service to customers.

Retail operations showed a marked improvement over the prior year, but are still not producing a satisfactory profit. This problem will continue to have the closest attention. Industry-wide, retail shoe sales were active through mid-September when they lagged noticeably until late November. December sales showed a marked pick-up.

Among important facility changes was the opening in Hermann, Missouri, of one of the industry's most modern factories, air-conditioned and equipped with the latest conveyORIZED machinery. It replaces an older plant but provides greater capacity for the production of quality juvenile shoes utilizing the highly-skilled work force in that community. The production capacity of Florsheim's St. Louis women's shoe factory was increased by an addition completed in June. All Florsheim women's shoes are distributed from added warehouse space also provided in the new unit.

Two new product lines were added. The widely-known "Fiancees" women's dress shoes were exclusively distributed by International beginning with the fall season. In 1963 a new line of Jantzen sport and casual footwear will be manufactured under agreement with Jantzen, Inc., famous swimsuit and sportswear manufacturer.

The Florsheim Shoe Company and Savage Shoes Limited, of Canada, reflecting the vital character of their managements, have again had a good year and contributed notably to consolidated results.

At year-end negotiations were completed for the purchase of majority interest in Julius Marlow Holdings Limited, the largest producer of men's welt shoes in Australia. This acquisition opens up a desirable new market for future expansion. Since licensing the Standard Shoe Company of Tokyo to manufacture Winthrop shoes for the Japanese market, that brand has become one of the best known and most widely distributed in Japan. During 1962 on-the-spot studies and analyses have been made of shoe companies in both the European and Central American common markets. No decision has been made with respect to our possible entry into these areas.

For the immediate future it would appear that even with possible tax adjustments there will be no rapid up-turn in business, but the second half could well reflect the stepped-up tempo which is now evident in some segments of the economy.

International Shoe Company will continue to face the challenge of change. We are confident that streamlining of operations and dedication to service, efficiency and profit improvement will continue to add to our long history of profitable operation as the challenge of change is met.

The directors and officers wish to express their gratitude to the shareholders for their confidence, to our customers whose loyalty is so essential to our business, and to our employees whose fine response to the need for extra effort made this year's improved results possible.

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 10, 1963

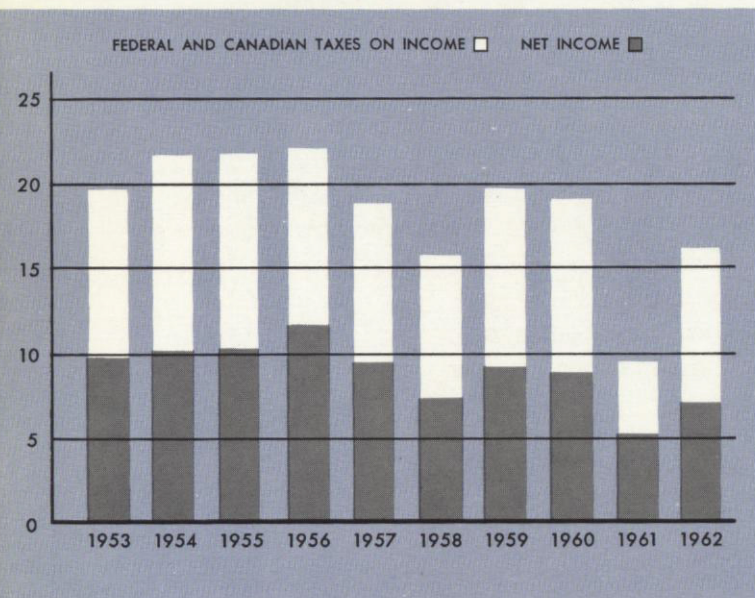
President



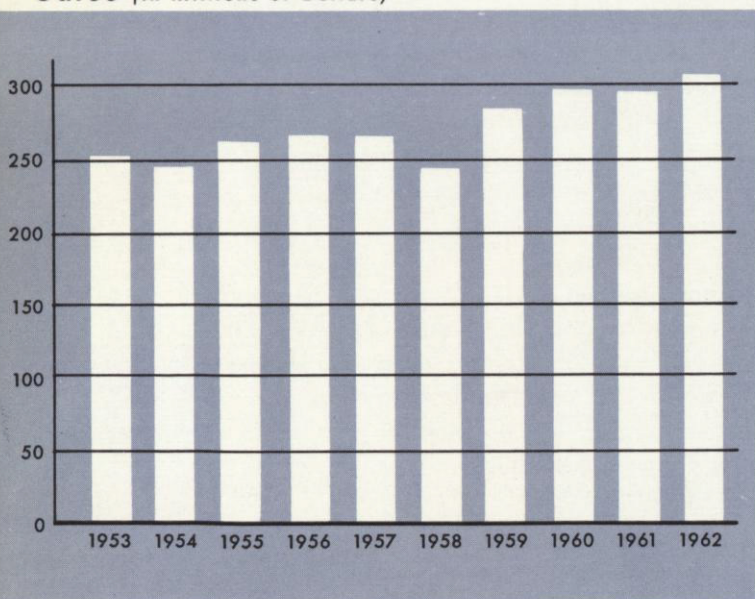
M. R. Chambers, President

1962 THE YEAR IN REVIEW

Income before Taxes (in Millions of Dollars)



Sales (in Millions of Dollars)



CONSOLIDATED SALES AND INCOME

Net sales of \$303,182,231 for the year were the highest on record, exceeding the prior year's sales of \$294,274,879 by \$8,907,352, an increase of 3%. The previous sales record was set in 1960 with \$296,470,457.

Sales for the second half amounted to \$152,921,635 compared with \$150,260,596 for the first six months.

Net income of \$7,070,667 showed marked improvement over the 1961 earnings of \$5,191,178—an increase of \$1,879,489 or 36%.

Per share earnings were \$2.12 compared with \$1.53 a year ago.

A reduction of \$367,106 or 11¢ a share in net income was made to adjust the working capital of our Canadian subsidiary to reflect the lower rate of exchange on Canadian currency which became effective last May. Except for this adjustment earnings would have shown \$2.23 a share.

Operating results for the year were aided by a successful company-wide cost improvement program coupled with a relatively stable hide and leather market.

Shoe prices which remained unchanged during the year were adjusted going into the Spring 1963 season to provide for the higher wage rates.

WAGE AGREEMENT

The company's capable working force of 32,500 men and women performed well in 1962. All contributed to the year's achievement by their earnest and diligent efforts.

A new two-year wage contract covering the majority of the company's employees was signed in September, becoming effective October 1, and expiring September 30, 1964.

HOW WE USED OUR 1962 SALES DOLLAR

| | Amount | % |
|--|----------------------|--------------|
| Materials, Supplies, and Expenses..... | \$155,707,616 | 51.4 |
| Employees' Pay and Benefits..... | 125,849,208 | 41.5 |
| Depreciation..... | 3,998,542 | 1.3 |
| Taxes (excluding Social Security)..... | 10,556,198 | 3.5 |
| Dividends to Stockholders..... | 4,050,004 | 1.3 |
| Remainder used in Business..... | 3,020,663 | 1.0 |
| | <u>\$303,182,231</u> | <u>100.0</u> |

The contract provides for wage increases, an added paid holiday, improvements in pension and insurance plans, and other fringe benefits, which will amount to approximately 11½ cents an hour over the two-year period.

The company looks forward to the continuation of the fine employer-employee relationship which has existed for many years.

DIVIDENDS

Completing 50 years of uninterrupted dividend payments, the 207th consecutive dividend was paid on January 5, 1963.

Dividend payments totaled \$1.20 per share for the year, continuing the quarterly rate of \$.30.

The total dividend payment in 1962 amounted to \$4,050,004 leaving \$3,020,663 of the year's net profit to provide for the continued growth and expansion of the company.

FINANCIAL POSITION

The strong financial position of the company is shown in the closing financial statements. Working capital of \$117.5 million at year-end remains at a high level with a ratio of current assets to current liabilities of 4.7 to 1 and cash of \$16.5 million. Long term debt was reduced \$2.2 million. Stockholders' equity increased to \$111.3 million from \$109.8 million—\$33.31 a share compared with \$32.32 a year ago.

During the year the company purchased 55,752 shares of its common stock to be used for employee stock options and other corporate purposes.

Expenditures in 1962 for plant modernization and expansion totalled \$4.7 million compared

with \$3.7 million in the prior year. It is now expected that capital expenditures in 1963 will be approximately \$4 million which will be about equal to charges to depreciation.

The new Depreciation Guidelines and Rules issued in July, 1962 by the United States Treasury Department permit a faster rate of depreciation than was allowed in previous years. The company adopted the new depreciation guidelines in 1962 for federal income tax return purposes only. No change was made in the depreciation usually recorded on the books. This resulted in federal income taxes payable to the U. S. Treasury Department being \$604,000 less than the amount shown on the consolidated income statement. The difference appears on the statement of financial position as "Deferred federal taxes."

By reporting depreciation and federal income taxes in the income statement consistent with prior years, the net income for the year is not affected by the change. The company will benefit by having these deferred taxes available for use in the business for a period of years until such time as they become payable as current federal taxes.

The tax benefit resulting from the 7% investment credit on the cost of new machinery and equipment also permitted under the new tax law is being prorated over the life of such assets.

ORGANIZATION CHANGES

At the stockholders meeting on February 26, 1962, three new directors were elected to fill vacancies on the board, one from outside the company and two from within. They are:

J. RUSSELL FORGAN, Senior Partner, Glore, Forgan & Company, New York investment bankers. Mr. Forgan represented International Shoe Company in financial matters on several occasions.

WARREN P. METZ, Secretary and Assistant Treasurer.

EDWARD J. RILEY, JR., General Manager, Shoe Manufacturing Operations.

At the Board of Directors Meeting which immediately followed, some additional assignments of responsibility were made.

Vice-President J. LEE JOHNSON was appointed Vice-President and Treasurer.

Comptroller WILLIAM J. BANKS was elected Vice-President and Comptroller.

RICHARD H. ELY was named Assistant Secretary.

On April 10, 1962, two additional vice-presidents were elected.

M. ROBERT SHAFFER, Director of Marketing was made Vice-President—Marketing.

EUGENE J. ROESSEL, an experienced shoe executive who became associated with the company early in the year was named Vice-President—Sales.

SOURCE AND DISTRIBUTION OF FUNDS...FISCAL YEAR 1962

Funds were acquired from sources as follows:

| | |
|--|---------------------|
| Net income for year..... | \$ 7,070,667 |
| Provision for depreciation..... | 3,998,542 |
| Deferred federal income taxes..... | 604,000 |
| Decrease in employees' notes receivable..... | 386,094 |
| Decrease in customers' loans receivable..... | 92,004 |
| Increase in minority interests..... | 42,285 |
| | <u>\$12,193,592</u> |

These funds were distributed as follows:

| | |
|---|---------------------|
| Expenditures for plant, equipment and fixtures (net)..... | \$ 4,727,399 |
| Dividends paid on common stock..... | 4,050,004 |
| Decrease in long-term indebtedness..... | 2,249,000 |
| Acquisition of treasury stock..... | 1,512,174 |
| Increase in excess of investment over equity in subsidiaries..... | 149,675 |
| Miscellaneous..... | 97,038 |
| | <u>\$12,785,290</u> |
| Net decrease in Working Capital..... | 591,698 |
| | <u>\$12,193,592</u> |

PRODUCTION SUMMARY

Our Company's principal production is shoes. During 1962, we produced:

SHOES

| | | | |
|---------------------|--------|------------|---|
| for Men and Boys | Pairs— | 15,821,025 | Consisting principally of this type of production our sales amounted to |
| for Women and Girls | Pairs— | 14,850,544 | |
| for Children | Pairs— | 16,168,424 | |
| House Slippers | Pairs— | 950,212 | |
| | | Total | |
| | | 47,790,205 | \$303,182,231 |

In addition, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1962 we produced:

MATERIALS FOR SHOE UPPERS

| | | | |
|--|--------|------------|---|
| Leather for Uppers (including Linings) from Cattle Hides and Lambskins | Feet— | 54,501,248 | This type of production had an aggregate value of |
| Cloth for Linings from Cotton | Yards— | 9,034,293 | |
| | | | \$ 18,692,384 |

MATERIALS FOR SHOE BOTTOMS

| | | | |
|--------------------------------------|---------|------------|---|
| Soles, of Leather | Pairs— | 15,367,537 | This type of production had an aggregate value of |
| Soles, of Rubber | Pairs— | 16,831,623 | |
| Counters, of Leather | Pairs— | 5,073,259 | |
| Heels, of Leather | Pairs— | 2,112,435 | |
| Heels, of Rubber | Pairs— | 11,596,015 | |
| Leather, for Soles from Cattle Hides | Pounds— | 10,139,658 | |
| Welting, Leather | Yards— | 9,805,737 | |
| | | | \$ 19,983,986 |

OTHER MATERIALS AND SUPPLIES

| | | | |
|---|---|--|--------------|
| Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns, and others not itemized | This type of production had an aggregate value of | | |
| | | | \$ 9,156,369 |

| | |
|---|---------------|
| Total Value—Shoes and Materials and Supplies..... | \$351,014,970 |
|---|---------------|

PLANT FACILITIES

MANUFACTURING PLANTS

| | |
|----------------------------|-------------------------|
| 58 Shoe Factories | 1 Cement Plant |
| 3 Sole Cutting Plants | 1 Box Plant |
| 2 Rubber Plants | 1 Wood Heel Plant |
| 1 Cotton Textile Mill | 1 Last Remodeling Plant |
| 1 Welt Manufacturing Plant | 1 Findings Plant |
| | 1 Display Shop |
| 1 Chemical Plant | 1 Box Toe Plant |

TANNERIES

| |
|---------------------------|
| 4 Upper Leather Tanneries |
| 1 Sole Leather Tannery |

SUPPLY PLANTS

| |
|------------------------------|
| 1 Upper Leather Supply Plant |
| 1 Central Supply Plant |
| 1 Central Machine Shop |

WAREHOUSES

| |
|----------------------------|
| 9 Finished Shoe Warehouses |
|----------------------------|



ST. LOUIS DIVISION

New undertakings in distribution and production, and continued emphasis on profit and quality improvement highlighted the activities of the St. Louis Division in 1962.

The company entered into an agreement with Clark Shoe Company of Auburn, Maine, under which it began the sale and distribution of the "Fiancées" line of ladies dress shoes. A new division was set up with a separate sales force to service the many outstanding stores which will distribute these shoes. Based on their excellent reception we can look to steadily increasing volume.

An agreement was made with Jantzen, Inc., Portland, Oregon, under which our company will develop and market a new line of ladies casual and low heel footwear bearing the well-known Jantzen trademarks. The necessary organizing and planning are underway to begin the sales of these shoes during 1963. The outlook for this new venture is most promising.

Continuing our program of plant modernization, the many technological changes taking place in shoe manufacturing are reflected in our operations. The new factory at Hermann, Missouri, is now producing children's Goodyear welts at highly competitive prices. This facility was designed to utilize the latest shoemaking equipment and transporters to produce quality shoes most efficiently. The opening of a similar plant at Sweet Springs, Missouri, producing men's shoes is scheduled shortly after the close of the year.

Of particular interest is the successful program to increase efficiency in shoe production in all plants in relation to available production area. Over the past several years the average time in process has been reduced from just over fifteen days to the present average of about 10 days by better coordination in the use of materials, labor and machines without taking any time from actual shoemaking processes. The introduction of more transporters and other shoemaking equipment has further reduced in-process time.

Five factories were wholly or partly converted to the manufacture of men's cement dress shoes to meet the increasing demand for lighter weight men's footwear. Capacity for making shoes with molded plastic soles was also increased to fill the growing need for the rugged type of children's shoes produced by this method.

GENERAL LINE DISTRIBUTION

ROBERTS, JOHNSON & RAND
PETERS
FRIEDMAN-SHELBY
QUEEN QUALITY

SPECIALTY DIVISIONS

ACCENT SHOE COMPANY
FIANCÉES
GREAT NORTHERN SHOE CO.
HY-TEST SAFETY SHOES
PANORAMA SHOE CO.
VITALITY SHOE CO.
WINTHROP SHOE CO.

VOLUME DISTRIBUTION

CONTINENTAL SHOEMAKERS
HAMPSHIRE SHOE CO.
SENTINEL DIVISION



Our new Geuting's store opened in 1962 in the fashionable Cherry Hill suburb of Philadelphia.



Conveyorized fitting room of newly opened Hermann, Missouri, factory speeds the movement of children's welt shoes.

Exterior view of new Margolis shoe store in Pasadena, Texas. This is one of the many opened in 1962 as part of the St. Louis Division's retail expansion program.



Over the years the increasing diversity in the shoes offered for sale—more styles in a greater variety of colors and materials—imposed burdens at all levels. Several years ago the general line inventories were consolidated under common stock numbers which helped stem the increase in variety. This year the number of stock numbers was substantially reduced and more material standardization was effected. A further reduction in stock numbers was made in the Spring 1963 lines.

The result of these moves has been a reduction in manufacturing and overhead costs and at the same time it is expected that the sales effort and service to customers will be enhanced by the more carefully composed lines now being offered.

After careful evaluation a larger computer was ordered for delivery toward the end of 1963 to provide greater capacity to extend the techniques of automation into other areas of our business. No additional machine cost is involved as the cost of the new computer will be fully offset by the equipment it replaces.

A number of departments were consolidated and staffed commensurate with the lessened volume of detail resulting from the more compact lines of shoes and the use of computer supplied information.

The operating results of the St. Louis Retail Division showed definite improvement in 1962. The volume of the new retail stores and departments added during the year exceeded the volume of the unprofitable units that were closed.

Many leased departments were opened in prominent department stores. Among them are three in St. Louis locations of Scruggs,

Vandervoort and Barney, selling women's and children's shoes; three in Jordan-Marsh, Florida, featuring men's, women's and children's shoes respectively; and three women's and children's shoe departments in Rice's, Norfolk, Virginia.

In the field of membership department stores eight new leased departments were opened in 1962. Six are scheduled to be opened early in 1963, bringing the total number of units of this kind to eighteen.

The company's Puerto Rican shoe manufacturing plants and sales distribution center attained the highest level of activity since operations began in 1958. Performing with a large measure of autonomy, the aggressive management on the scene has developed this phase of the business well in line with earlier expectations. This four-factory facility, which was augmented this year by the addition of a supply warehouse, profitably fulfills requirements for shoes in some of the more competitive price ranges.

Attractive interior of shoe department in Scruggs, Vandervoort & Barney, St. Louis, leased by our Retail Division.





Harold M. Florsheim
President

BOARD OF MANAGERS

| | |
|-----------------------|----------------------|
| William J. Banks | Weldon P. Magee |
| Aloysius M. Brumbaugh | Martin F. Maher |
| Maurice R. Chambers | Oswald M. Pick |
| William Collingwood | Norfleet H. Rand |
| Simeon F. Eagan | Harry E. Revkin |
| Harold M. Florsheim | John K. Riedy |
| Thomas W. Florsheim | Laurence M. Savage |
| Gifford P. Foley | Paul M. Smith |
| Richard A. Heider | Joseph B. Stancliffe |
| J. Lee Johnson | John W. Wallace |

OFFICERS

| | |
|---------------------|--------------------------------|
| Harold M. Florsheim | <i>President</i> |
| S. F. Eagan | <i>Vice-President</i> |
| O. M. Pick | <i>Vice-President</i> |
| J. B. Stancliffe | <i>Vice-President</i> |
| W. H. Armstrong | <i>Vice-President</i> |
| W. Collingwood | <i>Vice-President</i> |
| T. W. Florsheim | <i>Vice-President</i> |
| G. P. Foley | <i>Vice-President</i> |
| W. P. Magee | <i>Vice-President</i> |
| J. K. Riedy | <i>Vice-President</i> |
| J. W. Wallace | <i>Treasurer and Secretary</i> |
| B. B. Clayburn | <i>Assistant Secretary</i> |
| M. F. Maher | <i>Director of Advertising</i> |



THE FLORSHEIM DIVISION

The Florsheim Division in addition to celebrating its 70th anniversary during 1962, reached new highs in sales and operating profit. More shoes were produced and sold than in any previous year in the history of the company. This again emphasizes the customer acceptance of Florsheim shoes, and the strong position the Division enjoys in the quality field.

In spite of higher labor costs, both direct and indirect, a satisfactory profit position was maintained in keeping with the increased production and sales. This was only accomplished by a comprehensive cost reduction program affecting all phases of the business.

During the year several important steps were taken to consolidate and strengthen certain operating units. All administrative and warehousing facilities of the Women's Division were combined at the enlarged women's factory in St. Louis. In addition to constructing a modern warehouse adjacent to the building for manufacturing, these facilities were completely modernized and rearranged to improve the quality and productive output. These moves will enable us to render better service to meet customer requirements.

The foregoing improvements made it possible to make another important change in operations. The factory which manufactures displays and furniture for the windows of Florsheim and dealer's stores, formerly located in rented space, was moved into the building previously used for the manufacture of Florsheim women's shoes. With a much improved production facility, larger warehousing space and shipping area, this Division is expected to continue its rapid growth.

In the past the distribution of Florsheim shoes for men and women has been primarily through independent dealers and department stores. In addition, the Division has operated a group of company owned stores and leased departments in men's clothing stores. With the advent of large suburban shopping centers where there has been no dealer representation available, Florsheim has opened a number of stores. These have proven to be substantial outlets for its product and it is anticipated that years 1963 and 1964 will see further developments in this area.

The unique feature of the newer Florsheim shopping center



The wide appeal of Florsheim men's shoes is revealed in the "Wall of Fame" display featured in newly opened shopping center in Seattle.



Thayer-McNeil Shoe Salon in Oakbrook, Illinois, one of the twenty retail units opened by The Florsheim Shoe Company in 1962.

stores where they are located in enclosed malls, is the "store with no door," designed and constructed to be a part of the mall itself in contrast to a conventional street level store of plate glass window construction. With one wall serving as a self-service displayer, the entire store actually becomes a display window in itself attracting traffic, facilitating selection and selling, and more important, providing exposure to the entire line of Florsheim shoes to customers and prospective customers, thus, emphasizing breadth and scope of the line. This is a major departure in retail store design and really the first improvement in many years. It has been most successful wherever conditions are such that it can be fitted into the overall plan of the center.

The group of company owned stores operating under the name of Thayer-McNeil continues to make progress in the distribution of Florsheim shoes for men and women. Additional units were recently opened in Oakbrook, Illinois and Coral Gables, Florida, and as the

opportunity presents itself, this chain will be further expanded.

Having dominated the domestic market in quality shoe production for a number of years, the company is now turning its attention to development in foreign countries. In line with this, last year arrangements were made with Savage Shoes Limited to manufacture Florsheim men's shoes in Canada and the growth of this activity has been gratifying.

Shortly after year-end, arrangements were completed for the acquisition of controlling interest in Julius Marlow Holdings Limited in Australia. This company is the largest manufacturer of men's quality footwear of welt construction in the Commonwealth. The Florsheim Division will maintain close liaison with Julius Marlow and will supply technical and other assistance. There will be no change in the administration or character of the existing organization, which is young and aggressive. With this association, we are confident of rapid and substantial growth in Australia.

The "store with no door" design of The Florsheim Shoe Shop in the Randhurst Shopping Center, Mount Prospect, Illinois, makes an attractive showcase of the entire store.





Laurence M. Savage
President

DIRECTORS

William J. Banks
Maurice R. Chambers
Harold M. Florsheim
C. Reginald Kidner
John S. Malcolm
Norfleet H. Rand
Laurence M. Savage

OFFICERS

Laurence M. Savage *President*
C. Reginald Kidner *Vice-President*
John S. Malcolm *Vice-President*
Mervyn E. Souder *Vice-President*
Byron J. Thouless *Sec'y.-Treas.*
Donald G. MacLeod *Comptroller*

SAVAGE SHOES LIMITED

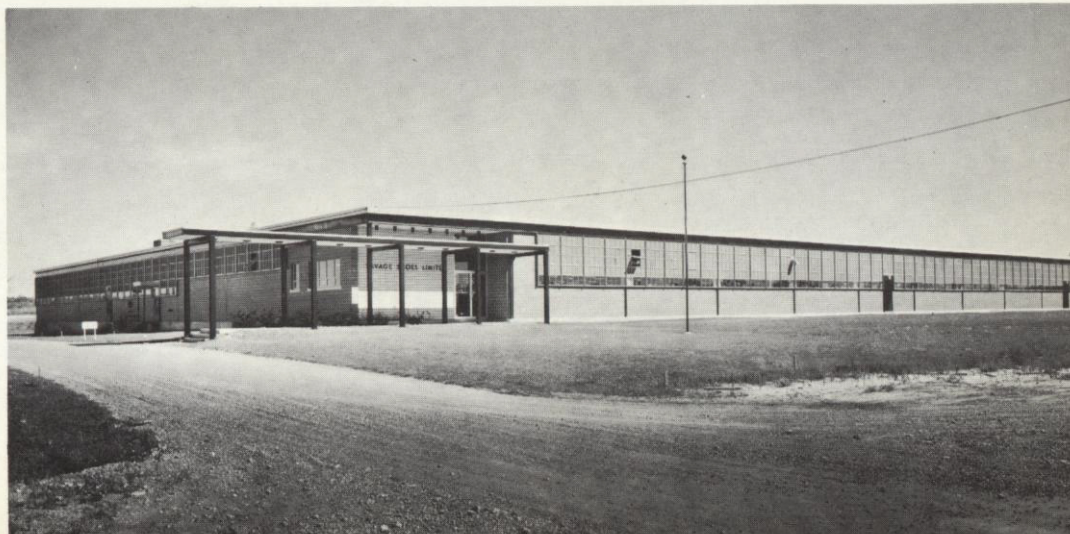
The year 1962 was one of successful consolidation and increased centralization which contributed to the steady advance in sales and profits of Savage Shoes, Ltd.

The moves were necessary because of the acquisition in 1961 of the Scroggins Shoe Company Limited, of Galt, Ontario and Denny Stewart Limited of Montreal, Quebec. Along with this was the addition of new plants and a major regrouping of sales and administrative functions that resulted from the introduction of such parent company brands as Vitality, Queen Quality and Wanderlust.

The total sales of the company continued to advance in proportion to increases in population and disposable income. Savage Shoes' market share has been maintained in face of greatly increased competition. The profitability of all sectors of business in Canada has suffered from the cost price squeeze caused by the Government's austerity program, which resulted in the devaluation of the currency and the imposition of duty surcharges. These rising costs have been partially offset by increasingly efficient Savage manufacturing and administrative methods. The improvements will continue to be reflected in the increased profitability of future operations.

The sales staff was enlarged to provide a greater depth of coverage in all of the provinces of Canada. Sample room facilities were expanded to accommodate the growth of the sales force and the product line. General office departments were reorganized and simplified to streamline customer service. An advertising department was added to the marketing organization resulting in a significant reduction in the cost of advertising administration.

Savage's plant at Galt, Ontario, was recently enlarged to meet increasing demand for children's unimold shoes.



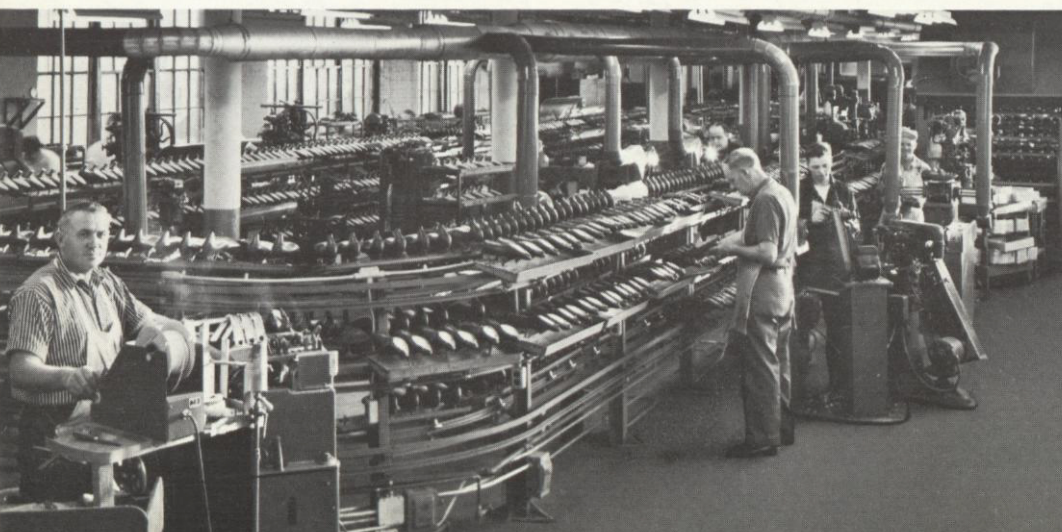


High grade men's McHale and Florsheim shoes are produced in Savage's new plant at London, Ontario.

In each of the twelve Savage plants, substantial expenditures were made in 1962 to enable the company to take advantage of the many technological improvements which have been introduced in the shoe industry. A fitting room transporter and lasting department conveyor were installed in the St. Thomas plant. Injection molding capacity was expanded in the Galt plant to accommodate an increasing demand for shoes of this type. Plans now have been completed and initial shipments of machinery have been received to enable the introduction of a line of string lasted shoes to be manufactured in West Lorne, Ontario and sold under the Savage "Melody" brand name.

The administrative organization of the company was strengthened by the promotion of several officers to newly created positions, consolidating control responsibilities for all divisions of the company. The data processing system installed several years ago was replaced by improved equipment greatly accelerating the program to centralize accounting and administrative functions. The establishment of uniform procedures and centralized data processing permitted a significant clerical reduction in all branches of the company.

Since Savage Shoes Limited now serves all major segments of the shoe market from coast to coast, it is in an increasingly strong position to participate in the Dominion's growing economy. Despite a certain sluggishness in general business activity, this important subsidiary of International Shoe Company expects to maintain its dominant position in the Canadian market during 1963, gaining in both sales and profits.



Savage Shoes

New lasting room conveyor and heat set dryer installed in Medcalf Division, St. Thomas, Ontario, to reduce in-process time.

10 Year **CONSOLIDATED FINANCIAL**

...YEARS ENDED NOVEMBER 30

1962

| | |
|---|-----------|
| Net Sales..... | \$303,182 |
| Income Before Taxes..... | 16,008 |
| Federal and Canadian Income Taxes..... | 8,616 |
| Net Income (1)..... | 7,071 |
| Dividends Paid..... | 4,050 |
| Percentage of Net Income to Sales..... | 2.3% |
| Per Share—Net Income (2)..... | \$ 2.12 |
| Per Share—Dividends..... | 1.20 |
| Cash and Government Securities..... | \$ 16,453 |
| Receivables..... | 54,807 |
| Inventories..... | 77,000 |
| Prepaid Expenses..... | 747 |
| Total Current Assets..... | 149,007 |
| Current Liabilities..... | 31,545 |
| Working Capital..... | 117,462 |
| Physical Properties (Net)..... | 40,976 |
| Other Assets..... | 9,527 |
| Deferred Federal Taxes..... | 604 |
| Long-Term Debt..... | 54,571 |
| Minority Interests in Subsidiaries..... | 1,481 |
| Stockholders' Equity..... | \$111,309 |
| Shares of Common Stock Outstanding..... | 3,341,470 |
| Stockholders' Equity Per Share..... | \$33.31 |

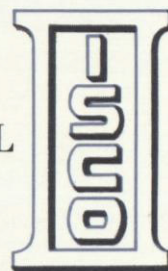
(1) After adjustment for minority interests.

(2) Based on shares outstanding.

(3) Includes nonrecurring items which increased net income \$1,101,325 or 33 cents per share.

REVIEW

INTERNATIONAL SHOE COMPANY



| 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 | 1953 |
|------------------------|-----------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
| (DOLLARS IN THOUSANDS) | | | | | | | | |
| \$294,275 | \$296,470 | \$283,261 | \$244,314 | \$266,073 | \$266,814 | \$262,414 | \$246,765 | \$251,028 |
| 9,369 | 18,855 | 19,400 | 15,554 | 18,675 | 22,123 | 21,847 | 21,659 | 19,508 |
| 4,081 | 10,101 | 10,132 | 7,938 | 9,095 | 11,246 | 11,448 | 11,592 | 9,687 |
| 5,191 | 8,867 | 9,207 | 7,541 | 9,577 | 11,849 (3) | 10,414 | 10,203 | 9,931 |
| 6,116 | 6,113 | 6,050 | 7,043 | 8,054 | 8,062 | 8,095 | 8,131 | 8,139 |
| 1.8% | 3.0% | 3.3% | 3.1% | 3.6% | 4.4% | 4.0% | 4.1% | 4.0% |
| (IN DOLLARS) | | | | | | | | |
| \$ 1.53 | \$ 2.61 | \$ 2.71 | \$ 2.25 | \$ 2.86 | \$ 3.53 (3) | \$ 3.10 | \$ 3.01 | \$ 2.93 |
| 1.80 | 1.80 | 1.80 | 2.10 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| (DOLLARS IN THOUSANDS) | | | | | | | | |
| \$ 16,683 | \$ 11,634 | \$ 9,952 | \$ 12,317 | \$ 8,495 | \$ 8,892 | \$ 10,639 | \$ 10,443 | \$ 11,527 |
| 55,048 | 53,598 | 52,418 | 43,468 | 45,304 | 46,778 | 40,621 | 40,335 | 41,028 |
| 74,355 | 83,385 | 80,198 | 65,473 | 71,613 | 74,409 | 71,848 | 72,968 | 72,822 |
| 707 | 781 | 680 | 404 | 593 | 564 | 430 | 564 | 574 |
| 146,793 | 149,398 | 143,248 | 121,662 | 126,005 | 130,643 | 123,538 | 124,310 | 125,951 |
| 28,740 | 29,529 | 42,921 | 24,872 | 28,965 | 31,253 | 27,223 | 38,704 | 39,608 |
| 118,053 | 119,869 | 100,327 | 96,790 | 97,040 | 99,390 | 96,315 | 85,606 | 86,343 |
| 40,247 | 40,538 | 38,588 | 37,882 | 38,520 | 37,054 | 36,800 | 35,787 | 33,217 |
| 9,772 | 10,339 | 10,805 | 10,836 | 11,257 | 10,657 | 10,394 | 9,609 | 10,972 |
| — | — | — | — | — | — | — | — | — |
| 56,820 | 58,585 | 40,351 | 41,316 | 42,999 | 44,415 | 44,655 | 33,552 | 34,958 |
| 1,438 | 1,395 | 1,453 | 912 | 1,035 | 1,228 | 1,152 | 884 | 900 |
| \$109,814 | \$110,766 | \$107,916 | \$103,280 | \$102,783 | \$101,458 | \$ 97,702 | \$ 96,566 | \$ 94,674 |
| 3,397,222 | 3,398,022 | 3,395,222 | 3,353,718 | 3,353,718 | 3,358,703 | 3,359,503 | 3,386,203 | 3,390,803 |
| \$32.32 | \$32.60 | \$31.78 | \$30.80 | \$30.65 | \$30.21 | \$29.08 | \$28.52 | \$27.92 |

INTERNATIONAL SHOE COMPANY

CONSOLIDATED FINANCIAL POSITION

| | November 30, | 1962 | 1961 |
|---|--------------|----------------------|----------------------|
| Current assets: | | | |
| Cash..... | | \$ 16,453,500 | \$ 16,673,141 |
| United States Government securities, at cost..... | | — | 10,000 |
| Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts..... | | 54,807,204 | 55,047,944 |
| Inventories (note 2)..... | | 76,999,862 | 74,354,998 |
| Prepaid insurance premiums, taxes, and sundry..... | | 746,508 | 707,400 |
| Total current assets..... | | 149,007,074 | 146,793,483 |
| Less—current liabilities: | | | |
| Notes payable to banks..... | | 1,684,055 | 1,724,500 |
| Current maturities of long-term debt..... | | 1,673,825 | 1,755,250 |
| Accounts payable and accrued expenses..... | | 20,123,826 | 21,159,607 |
| Employees' balances and tax withholdings..... | | 1,614,426 | 1,386,035 |
| Federal and Canadian taxes on income..... | | 6,448,996 | 2,714,447 |
| Total current liabilities..... | | 31,545,128 | 28,739,839 |
| Net working capital..... | | 117,461,946 | 118,053,644 |
| Physical properties—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (note 3)..... | | 40,975,892 | 40,247,035 |
| Customers' secured loans, deferred maturities..... | | 6,121,695 | 6,213,699 |
| Excess of investment over equity in subsidiaries, net..... | | 1,914,043 | 1,764,368 |
| Employees' notes receivable for stock, secured by 30,571 shares (49,333 shares in 1961) of parent company's common stock | | 547,136 | 933,230 |
| Sundry investments and deferred charges..... | | 944,295 | 860,628 |
| | | 167,965,007 | 168,072,604 |
| Deduct: | | | |
| Deferred Federal taxes..... | | 604,000 | — |
| Long-term debt, less current maturities (note 4)..... | | 54,571,000 | 56,820,000 |
| Minority interests in subsidiaries..... | | 1,480,526 | 1,438,241 |
| | | 56,655,526 | 58,258,241 |
| STOCKHOLDERS' EQUITY..... | | <u>\$111,309,481</u> | <u>\$109,814,363</u> |
| Represented by: | | | |
| Common stock without nominal or par value: Authorized 4,000,000 shares; issued 3,400,000 shares..... | | 51,000,000 | 51,000,000 |
| Capital in excess of stated amount..... | | 1,010,236 | 1,023,607 |
| Retained earnings (note 5)..... | | 60,910,523 | 57,889,860 |
| | | 112,920,759 | 109,913,467 |
| Less common stock in treasury, 58,530 shares (2,778 shares in 1961), at cost..... | | 1,611,278 | 99,104 |
| Stockholders' equity applicable to common stock outstanding, 3,341,470 shares (3,397,222 shares in 1961)..... | | <u>\$111,309,481</u> | <u>\$109,814,363</u> |

See accompanying notes to financial statements.

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME AND RETAINED EARNINGS

| Years Ended November 30, | 1962 | 1961 |
|--|----------------------|----------------------|
| Sales and other income: | | |
| Net sales..... | \$303,182,231 | \$294,274,879 |
| Income from rentals and services..... | 392,415 | 392,623 |
| Interest and other income..... | 1,014,782 | 923,952 |
| | <u>304,589,428</u> | <u>295,591,454</u> |
| Deductions: | | |
| Cost of sales, selling, general and administrative expenses | 281,330,709 | 279,018,033 |
| Depreciation..... | 3,998,542 | 3,982,376 |
| Interest and amortization of expense on long-term debt..... | 2,632,743 | 2,694,005 |
| Other interest and sundry charges..... | 619,572 | 527,775 |
| | <u>288,581,566</u> | <u>286,222,189</u> |
| Income before Federal and Canadian taxes on income..... | 16,007,862 | 9,369,265 |
| Federal and Canadian taxes on income, estimated..... | 8,615,790 | 4,081,277 |
| | <u>7,392,072</u> | <u>5,287,988</u> |
| Proportion of net profit of subsidiaries applicable to minority interests..... | <u>321,405</u> | <u>96,810</u> |
| NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY..... | 7,070,667 | 5,191,178 |
| Retained earnings at beginning of year..... | 57,889,860 | 58,814,897 |
| | <u>64,960,527</u> | <u>64,006,075</u> |
| Dividends on common stock \$1.20 per share (\$1.80 per share 1961)..... | 4,050,004 | 6,116,215 |
| RETAINED EARNINGS AT END OF YEAR..... | <u>\$ 60,910,523</u> | <u>\$ 57,889,860</u> |

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERNATIONAL SHOE COMPANY:

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1962 and the related statement of income and retained earnings for the year then ended. Our examination, which did not include the accounts of the Company's Canadian subsidiary, was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to such Canadian subsidiary, we have been furnished with the report of the accountants who examined its financial statements.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1962 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

St. Louis, Missouri
January 4, 1963

PEAT, MARWICK, MITCHELL & CO.

INTERNATIONAL SHOE COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) Principles of Consolidation:

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements. The accounts of foreign subsidiaries have been converted to United States dollars, generally at year-end rates for working capital, at rates on date acquired for fixed assets and related depreciation, and at average monthly rates for income and expense accounts. Unremitted foreign earnings included in net income have been retained for permanent reinvestment by the respective subsidiaries and accordingly no provision for income taxes is considered necessary with respect thereto.

(2) Inventories:

| | 1962 | 1961 |
|---|---------------------|---------------------|
| Finished shoes..... | \$47,060,961 | \$45,201,758 |
| Shoes in process..... | 2,600,401 | 2,773,224 |
| Hides and leather..... | 10,923,780 | 10,330,388 |
| Miscellaneous materials on hand and in process..... | 16,414,720 | 16,049,628 |
| | <u>\$76,999,862</u> | <u>\$74,354,998</u> |

Forty-six per cent of the inventories at current values are priced at cost, last-in, first-out (LIFO). The remainder of the inventories, including all miscellaneous materials and supplies, are priced at the lower of cost, first-in, first-out, or replacement market.

(3) Physical properties:

| | 1962 | 1961 |
|-----------------------------------|---------------------|---------------------|
| Land..... | \$ 3,979,444 | \$ 3,973,400 |
| Buildings and structures..... | 44,686,616 | 43,650,204 |
| Machinery and equipment..... | 46,551,434 | 44,932,036 |
| Lasts, patterns, and dies..... | 1 | 1 |
| | <u>95,217,495</u> | <u>92,555,641</u> |
| Less accumulated depreciation.... | <u>54,241,603</u> | <u>52,308,606</u> |
| | <u>\$40,975,892</u> | <u>\$40,247,035</u> |

(4) Long-term debt, less current maturities:

| | 1962 | 1961 |
|--|--------------|--------------|
| 4½% promissory installment notes due annually \$1,875,000, 1970 through 1989 and balance in 1990 | \$50,000,000 | \$50,000,000 |
| 3½% promissory installment note, payable \$1,500,000 annually 1964 and 1965..... | 3,000,000 | 4,500,000 |

| | 1962 | 1961 |
|---|---------------------|---------------------|
| Subsidiaries' debts, payable \$1,210,000 on December 1, 1963 and balance \$69,000 annually, secured in part by physical properties with a net cost of \$2,378,892 | 1,571,000 | 2,320,000 |
| | <u>\$54,571,000</u> | <u>\$56,820,000</u> |

(5) Retained earnings restrictions:

Retained earnings of \$43,810,400 at November 30, 1962 are restricted as to payment of cash dividends on common stock by the 4½% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least \$80,000,000.

(6) Common stock subject to options:

During the year the company modified and extended the Restricted Stock Option Plan adopted April 21, 1959 for certain selected executive and administrative employees, and is submitting a proposal for approval of this action at the forthcoming annual meeting of stockholders. Under the Revised Plan, option prices were reduced from \$34.50 to \$23.50, the market value at date of change. Terms of the options were extended from April 21, 1964 to April 21, 1969 and no further waiting period was required. Options granted by the company under other plans were at prices representing at least 95% of the market value at date of grant.

At the beginning of the year there were options outstanding under all plans for 118,990 shares at an average price of \$34.67. During the year, options were granted for 23,850 shares at \$24.375 (exercisable 1963 to 1967) and for 8,000 shares at an average price of \$27.44 (exercisable 1963 to 1972). Options for 11,140 shares expired or were cancelled and no options were exercised during the year. Options outstanding at November 30, 1962, 139,700 shares at an average price of \$24.11, included 101,850 shares under the Revised 1959 Plan.

(7) Long-term leases:

The minimum rentals on properties leased for terms of more than five years approximate \$3,800,000 annually.

LOCATIONS OF PRINCIPAL FACILITIES

SALES BRANCHES

ST. LOUIS, MISSOURI

Accent Shoe Co.
Continental Shoemakers
Fiancées
Friedman-Shelby Shoe Co.
Great Northern Shoe Co.

Hampshire Shoe Co.
Hy-Test Shoe Co.
Panorama Shoe Co.
Peters Shoe Co.
Queen Quality Shoe Co.

Roberts, Johnson & Rand
Shoe Co.
Sentinel Shoe Co.
Vitality Shoe Co.
Winthrop Shoe Co.

CHICAGO, ILLINOIS

The Florsheim Shoe Co.

CANADA

Savage Shoes, Ltd.—Preston, Ontario
Scroggins Shoe Co., Ltd.—Galt, Ontario

Denny Stewart, Ltd.—Montreal, Quebec
Medcalf Shoe Co., Ltd.—St. Thomas, Ontario

McHale Shoe Co., Ltd.—London, Ontario

SHOE FACTORIES

MISSOURI

Belle
Bland
Cape Girardeau
Dexter
Eldon
El Dorado Springs
Hamilton
Hannibal
Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Louis
Salem
Sikeston
Sullivan

MISSOURI

Sweet Springs
West Plains
Windsor

ILLINOIS

Anna
Chicago
Evansville
Flora
Mt. Vernon
Olney
Quincy
Springfield

KENTUCKY

Hopkinsville
Paducah

ARKANSAS

Batesville
Conway

ARKANSAS

Russellville
Searcy

PUERTO RICO

Manati

AUSTRALIA

Melbourne

ONTARIO, CANADA

Fergus
Galt
Kitchener
London
Preston
St. Thomas
West Lorne

QUEBEC, CANADA

Montreal

OTHER MANUFACTURING AND SUPPLY PLANTS

Hannibal, Missouri
St. Clair, Missouri
St. James, Missouri

St. Louis, Missouri
Vandalia, Missouri
Malvern, Arkansas

Bryan, Texas
Chicago, Illinois
Wood River, Illinois

TANNERIES

St. Louis, Missouri
Wood River, Illinois

Bolivar, Tennessee

Marlinton, West Virginia
Manchester, New Hampshire

WAREHOUSES

Hannibal, Missouri
St. Charles, Missouri

St. Louis, Missouri
Washington, Missouri
Chicago, Illinois

Philadelphia, Pennsylvania
Galt, Ontario, Canada

The International family of fine Brands...

MEN'S



WOMEN'S



TEEN'S

JUVENILE




SERVICE SHOES



IN CANADA



...ADVERTISED CONSISTENTLY, YEAR AFTER YEAR, IN NATIONAL MAGAZINES, NEWSPAPERS, SUNDAY SUPPLEMENTS, ON RADIO AND TELEVISION AND WITH DISPLAY AND DIRECT MAIL.



Summary Description of the Business of the International Shoe Company, The Florsheim Shoe Company and Subsidiary Corporations

INTERNATIONAL SHOE COMPANY (St. Louis Division)

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures, for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

The greater part of its product is distributed through independent retailers. A part goes through large and small chain organizations and through retail outlets operated by the Company.

THE FLORSHEIM SHOE COMPANY

The Florsheim Shoe Company, a division, manufactures and distributes Florsheim shoes for men and women. In addition to distribution through independent dealers, Florsheim operates a number of shoe stores and leased departments throughout the United States.

SUBSIDIARY CORPORATIONS

This consolidated report includes the affairs and accounts of subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Three of these subsidiaries are of significant size:

SAVAGE SHOES LIMITED and its subsidiaries manufacture and distribute men's, women's and children's shoes throughout Canada.

PUERTO RICAN INVESTMENT COMPANY through which are produced juvenile, growing girls' and men's shoes, principally for distribution by the St. Louis Division.

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Globe-Democrat Building in St. Louis, Missouri, with International Shoe Company and the St. Louis Globe-Democrat Publishing Company as the principal tenants.

